Report of the Task Force on

Petro-Canada

# REPORT OF THE TASK FORCE ON PETRO-CANADA

Petro Canada Task Force
Petro Canada Groupe de travail

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OTTAWA, Ontario

October 15, 1979

The Honourable R. Hnatyshyn, P.C., M.P.
Minister of Energy, Mines and Resources
O T T A W A

Dear Mr. Minister:

On September 5, 1979 you announced the appointment of Roland Giroux, Syd Kahanoff, Ralph Sykes and myself to act as a Task Force. You charged us with advising as to the procedures for transferring Petro-Canada to private ownership, which of the existing assets of Petro-Canada might most beneficially be returned to the private sector, as well as means of broadening Canadian participation and ownership in the petroleum industry. You also indicated that it would be important that sufficient capacity should be left with the Government of Canada to ensure the ability to perform three essential functions, as follows:

i. the negotiation of state-to-state contracts for the importation of crude oil, as necessary;

ii. the promotion of exploration in frontier areas with increased Canadian participation and at a pace which cannot be expected of the private sector alone;

iii. the promotion, along with frontier exploration, of tar sands and heavy oils research and development.

The terms of reference were far-reaching, the area to be examined was complex, and the time available was short. Inescapably, broader energy and policy issues intruded and could not be ignored.

The Task Force was guided by some basic

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convictions. We established early in our deliberations that the results of our assignment must ensure that both the effectiveness of the public service mandate of Petro-Canada and its private sector operations would in no way be lessened and hopefully enhanced as a result of our recommendations. The Task Force was also convinced that its recommendations should contribute to a more efficient use of our energy resources and taxpayers' dollars. We further agreed that public sector activities should be subject to the scrutiny of Parliament or its delegate, while private sector activities should be subject to the disciplines of a commercial enterprise. These broad guidelines and philosophies are basic to our recommendations.

The Task Force determined early in its mandate that Petro-Canada had to be restructured organizationally and strengthened financially as a prerequisite to any privatization. After analysing the operations of Petro-Canada and studying our terms of reference, we concluded that:

(a) The public sector activities and assets of Petro-Canada should reside in a new Government Agency.

(b) That Petro-Canada, without its public sector mandate, should not be dismantled but should be privatized.

(c) Petro-Canada should be restructured financially to cause it to have a more conventional balance sheet appropriate to a strong major Canadian company in the petroleum industry. This was accomplished through conversion of government guaranteed debt to equity.

(d) The recommended privatization method is to distribute all the shares of the financially restructured and re-organized company to every citizen of Canada as a gift from the Crown. Those shares not taken up would remain with the Crown until such time as it decides to make a secondary offering.

During the course of our deliberations, we received the fullest cooperation from persons in government, in the petroleum industry and from other private sector individuals. In particular, we received generous help from the Board and management of Petro-Canada. All members of the Task Force are appreciative of the support and help we were given.

The conclusions are those of the Task Force and are our exclusive responsibility.

Yours sincerely,

D.J. McDougall

Donald J. McDougall,
Chairman.

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## SECTION I THE ENVIRONMENT

The Task Force shares the view of many observers that the western industrial world is faced with the possibility and perhaps probability of serious crude oil supply and price crises.

The evidence is convincing that the production of crude oil for the international market will not keep pace with the growth in requirements. Actual shortages and the actions of the Organization of Petroleum Exporting Countries can be expected to exert a continuing upward pressure on the world price.

Canada cannot insulate itself from the impacts of international crude oil supply shortages and price escalations. Major trading partners are dangerously dependent upon offshore sources of crude oil; a disruption of the economies of our trading partners would have a seriously negative effect upon the economy of Canada.

The adequacy and security of supply of energy in all forms is uniquely important in Canada. Measured in terms of energy per unit of production or

per capita consumption, Canada is a large user of energy. Improved efficiency of energy use and conservation are obviously high priority. But the extensive geography of Canada and the intemperance of the climate dictate that the Canadian requirement for energy will always be high relative to most other countries.

Among the industrialized western countries of the world, however, Canada is most favoured in terms of the availability of potentially recoverable energy forms. Developed and potential hydroelectric sources are immense. Canada has enormous undeveloped deposits of coal. Natural gas reserves are judged to be adequate for many decades ahead with continued and even increased exports. Known crude oil resources, although costly to produce and/or geographically remote, are very large relative to domestic requirements.

Canada is now fully self-sufficient in energy, expressed as a balance of Btus of energy exported and Btus of energy imported. Ontario's imports of coal from the United States for thermal generation and metallurgical purposes are approximately offset by exports of coal from the westernmost provinces. Canada imported 667,000 barrels a day of crude oil

from world suppliers in 1978, but this was partly offset by exports of 396,000 barrels of crude oil and oil products; the remainder is more than offset by current exports of close to a trillion cubic feet a year of natural gas to the United States. In fact, in dollar terms, Canada's net favourable trade balance in energy commodities in 1978 was $1,878 million.

Recent developments on the Eastern Seaboard and the Beaufort Sea give added reason for optimism with respect to overall domestic supply. The oil and gas finds on the Eastern Seaboard, although not yet proven to be commercial, are particularly encouraging: their importance is increased because if either or both should prove to be commercial, they will become local and more economic sources of oil and/or gas for the energy deficit regions of Canada.

Canada has a great potential for producing crude oil, but costs will be substantial and lead times long. All forecasts agree that crude oil and natural gas will continue to be the major sources of Canada's energy for decades to come. It is essential that Canada -- public sector and private sector -- make a major and early commitment to the development of our resources and the production of additional supplies.

Conventional sources of oil and gas from the Southern Basin are much less costly than frontier sources and heavy oil and tar sand developments. There is a requirement, however, for substantially increased activities in the Southern Basin just to maintain Canada's present productive capacity in crude oil. Policies are needed that will maintain a high level of exploration and development activity and encourage enhanced production through secondary and tertiary recovery.

This activity must be paralleled by accelerated oil sands, heavy oil and frontier developments designed to convert for the longer term known oil resources to economically producible oil reserves.

These intensified activities are required if a serious shortfall of crude oil from domestic sources is to be avoided in the decade of the 1980s. This ongoing program will require the cooperation of industry and government, as the most efficient and economical means of finding and producing fossil fuels is to use most effectively all the particular assets and skills of each of the public and private sectors.

The private sector, the Government of Canada and the governments of its provinces must all be deeply

committed to the performance of their individual roles, which are, respectively, petroleum operations and the design of a public policy framework.

Public and private participants should both contribute to the accomplishment of clearly desirable national objectives:

- The assurance of secure and adequate energy in appropriate forms in all regions of Canada in the most efficient and economical way possible and with the least possible delay.

- Reduced direct Federal Government involvement in petroleum-related production activities, and a correspondingly increased responsibility on citizens, whether as individuals or organized into business entities.

In the view of the Task Force, one of the major purposes of restructuring Petro-Canada is to contribute to the attainment of these objectives.

The Task Force was charged with advising as to the procedures for transferring Petro-Canada to

private ownership; which of the existing assets of Petro-Canada might most beneficially be returned to the private sector, as well as broadening Canadian participation and ownership in the petroleum industry. It was indicated that it would be important that sufficient capacity should be left with the Government of Canada to ensure the ability to perform three essential functions, as follows:

i. the negotiation of state-to-state contracts for the importation of crude oil, as necessary;

ii. the promotion of exploration in frontier areas with increased Canadian participation and at a pace which cannot be expected of the private sector alone;

iii. the promotion, along with frontier exploration, of tar sands and heavy oils research and development.

In arriving at its conclusions, the Task Force gave consideration to its terms of reference and to the energy environment of Canada at this time.

## SECTION II PHILOSOPHY BEHIND THE PROPOSED CHANGES

In the matter of energy supply, government must effectively represent the collective citizen interest. But, given the central role played by exploration, production, distribution, marketing and consumption of petroleum in the sustaining of the life systems in Canada, individual citizens increasingly must be directly involved in Canada's energy affairs.

Government, per se, must be responsible for public interest activities designed to assure secure supplies of energy for all Canadians. But Government must not pre-empt activities that are more efficiently and effectively served directly by citizens, whether citizens act in their individual right or organize together as a company or cooperative.

Maximum benefit results when Government limits its role to public interest activities that are not commercial. This leaves to private citizens activities that are most efficiently handled in a private sector organizational mode.

The Task Force is well aware that no one

view expresses the attitude of all Canadian citizens as to where the line should be drawn that divides those activities best undertaken by Government and those best undertaken by citizens.

In defining that division with respect to Petro-Canada, the Task Force sought the relationship that would contribute to the most efficient use of our energy resources and the maximization of the benefit from the use of taxpayer dollars.

The Task Force believes that resources are not efficiently used when the objectives of a company are not clearly stated -- when a Crown corporation such as Petro-Canada is charged with the frequently conflicting responsibilities of serving broad national objectives and showing an appropriate profit from the use of the resources under its control. Such conflicts place the senior technical personnel and officers in an inherent state of uncertainty. They must make difficult decisions as to which objectives should take precedence, frequently with an incomplete knowledge of the urgency of diverse national priorities.

Furthermore, those who control the company have an uncertain accountability. Profits may be attributed to good business judgment while losses,

which may actually be due to bad business judgment, may be attributed to fulfilling national objectives.

Because private entrepreneurs have to compete and are constantly accountable to the shareholders for efficient use of resources and the resulting profits, the mismanagement of a private corporation becomes quickly evident to its shareholders.

The Task Force agreed that the definition of national policy objectives and the provision of funds needed to fulfill these objectives should both have to pass the scrutiny of Parliament rather than to be left in the hands of a small group of individuals comprising the Board and management of a Crown corporation.

The Task Force concluded that a large proportion of Canada's citizens, through their direct participation in Canada's new large petroleum company, should be involved in the rewards and responsibilities of ownership. Inversely, the company should accept the responsibility of encouraging this citizen involvement and should recognize its direct accountability to its citizen shareholders.

Specifically, it is proposed by the Task Force

that Petro-Canada, as it presently exists, should be divided into two parts, one of which will be a private sector company and one of which will continue to be an agent of the Government and will continue to have direct responsibility for activities that appropriately remain with the Government.

*Through the remainder of this report, the privatized company will be referred to as Petro-Canada Exploration, and the government entity will be referred to as the Government Agency.*

In the view of the Task Force, Petro-Canada Exploration should be involved only with the kind of activities and responsibilities that would ordinarily be undertaken and performed by any large Canadian petroleum company operating in the same environment.

The objectives of Petro-Canada Exploration will be parallel to the objectives of any equivalent Canadian petroleum company. It will measure its performance by the earnings that it makes on account of its shareholders and, implicitly, the way in which it manages the resources under its control.

It is the Task Force's belief that individual citizens will be better served by having their energy investment reside directly with a private sector company. The checks and balances will be known. The investor will have the democratic right to influence policy through the decisions of the annual meeting, or through the Board of Directors. As an alternative, he can decide to dispose of his investment.

This direct ownership is preferable to the assignment of responsibility to government officials, with only the electoral process as a periodic control mechanism.

The Government Agency will be charged with the performance of those public policy activities previously vested in Petro-Canada in its role as an instrument of government. It will be directly responsibile to the Government of Canada and accountable to the Minister of Energy, Mines and Resources. Its performance will be monitored by the processes that attach to any responsible agent of government.

The principle which guided the Task Force in its deliberations is that the public policy function of Petro-Canada will be more effectively performed by

persons dedicated solely to the design of public policy and that the commercial responsibilities will be more efficiently performed by persons skilled in the private petroleum industry.

## SECTION III DESCRIPTION AND DIVISION OF ASSETS AND ACTIVITIES OF PETRO-CANADA

### Description

1. The principal activities of Petro-Canada are as follows:

(1) Frontier exploration primarily through the joint venture route in the frontier areas, which comprise the Arctic Islands and the East Coast offshore including Labrador and Scotian shelves. A large portion of the Arctic Islands programme has been conducted through Panarctic Oils Limited.

(2) Exploration, development and production in Western Canada.

(3) Exploration and developments outside Canada.

(4) Participation as a joint venturer in the Syncrude oil sands project.

(5) Participation in the Alsands Project in the oil sands which is operated by Shell Canada Limited and is in the early stages of development.

(6) Research and development which has as its objective the improving of the technology for the extraction of hydrocarbons from the oil sands and heavy oil deposits.

(7) Participation in the Empress Plant which extracts natural gas liquids from the natural gas being carried out of Alberta by TransCanada PipeLines Ltd.

(8) Participation in seventeen hard rock mining projects comprising primarily uranium and coal prospects.

(9) Ownership of minority share positions in various pipeline companies including Westcoast Transmission and Cochin Pipeline.

(10) Ownership of a small refinery at Taylor in northeastern British Columbia.

(11) Marketing refined products through 375 retail gasoline outlets and 55 bulk plants catering to all classes of trade.

(12) Participating in the Arctic Pilot Project -- with respect to the transportation of liquefied natural gas from the High Arctic.

2. Petro-Canada, in Western Canada, has proven gas reserves before royalty of 4.2 trillion cubic feet and crude oil reserves before royalty of 330 million barrels.

3. Petro-Canada has approximately 18.2 million net acres of land and can earn a further 12.9 million acres by meeting certain work commitments.

4. The net loss of Petro-Canada for the six months ended June 30, 1979 was $7.6 million. It is estimated that there will be net earnings for the full year of $3 million and the funds provided from operations will be $253 million.

Proposals

Consistent with the terms of reference set out by the Government, the Task Force is unanimous in the view that, although the ownership and structure should be altered, Petro-Canada should not be dismantled.

Petro-Canada (as it now exists) effectively represents a $1.0 billion investment and a $1.5 billion debt guarantee by Canadians through their Government; it is a wholly Canadian-owned and controlled entity in a sector that is dominated by foreign ownership; its directors and officers have brought together a large and committed staff that has accumulated and managed major Canadian energy assets.

The existing combination of physical, capital

and human resources will contribute more to energy production as a continuing operation than if absorbed piecemeal into other enterprises.

Petro-Canada, as it now exists, is a holding company. Its main subsidiary is Petro-Canada Exploration Inc. which holds the assets acquired in the takeovers of Atlantic Richfield Canada Ltd., and Pacific Petroleums Ltd., or otherwise acquired or developed.

Petro-Canada Exploration Inc. should become the vehicle for privatization. It will hold all assets and be responsible for all activities not specifically defined as a responsibility of the Government Agency. The Government Agency would be responsible for the assets and activities specifically assigned to it.

This would include:

- some equity and role in Panarctic Oils Limited
- some involvement and role in the Polar Gas Project
- participation in the Arctic Pilot Project
- responsibility for the Lancaster Sound-Bylot Basin Project

-- activities definitively of a government nature including involvement in state-to-state negotiations, promotion of research and development and frontier activity.

It is clear from the recommended division of assets and activities that the Government Agency assumes the public interest mandate now resident in Petro-Canada; the commercial assets of Petro-Canada remain with the privatized Petro-Canada Exploration. The Task Force believes that the control mechanisms of government should apply to the Government Agency while the disciplines of a private sector company should apply to Petro-Canada Exploration.

## SECTION IV THE PRIVATIZATION PROCESS

The Task Force has examined or caused to be examined in detail the methods and procedures utilized in the establishment of Alberta Gas Trunk Line Company Limited, Canada Development Corporation, Alberta Energy Company Ltd., and the recently created British Columbia Resources Investment Corporation -- companies that were formed at the instigation of Government and that are now wholly or partly privately owned and managed.

In addition, the Task Force retained the services of three major Canadian investment dealers -- Burns Fry Limited, Dominion Securities Limited and McLeod Young Weir Limited -- to analyse alternative methods of privatization, the capacity of the market to absorb the major share offerings that could be required, the mechanics of distribution of shares and other matters.

### PREREQUISITES

The investigations and analyses of the Task

Force and information from its financial advisers led the Task Force to the conclusion that, for privatization of Petro-Canada to be successful, a number of important confidence building changes are necessary in the areas of policy, financial structure, land holdings and organization.

POLICY

The privatized company must be given a firm mandate to conduct its affairs on the basis of commercial viability. It must be clear that Petro-Canada Exploration will not be an instrument for the achievement of the Government's public policy objectives.

Petro-Canada Exploration will be the largest Canadian-owned petroleum company and its Board of Directors must be free to develop corporate policies which permit the achievement of commercial objectives in a publicly responsible manner.

FINANCIAL STRUCTURE

Petro-Canada (as it now exists) is over-burdened with debt, as compared to equity. This is

a circumstance that will not be acceptable given the termination of Government guarantees.

The 1978 Annual Report of Petro-Canada (as it now exists) indicates that debt, including the term preferred shares of Petro-Canada Exploration Inc., exceeds 250% of equity. This contrasts sharply with petroleum industry averages where, historically, debt for integrated companies has been approximately 25% of equity and where debt for senior producers has been approximately 40% of equity.

The Task Force has concluded that resolution of the debt to equity imbalance cannot and should not be undertaken by the sale of assets and piecemeal application of net proceeds. In the judgment of the Task Force, restructuring the combined debt of Petro-Canada should be achieved by:

- Purchase of the term preferred shares of Petro-Canada Exploration Inc. by the Government of Canada.

- Conversion of the term preferred shares of Petro-Canada Exploration Inc. to fully paid common shares of

Petro-Canada Exploration.

- Repayment of the $210.0 million income debentures of Petro-Canada by the transfer of cash from Petro-Canada Exploration Inc., from existing resources or appropriate financing.

- Issue of fully paid treasury common shares in settlement of the net balance of advances payable by Petro-Canada Exploration Inc. to Petro-Canada after effecting the division of assets and income debenture repayment recommended by the Task Force.

The financially restructured Petro-Canada Exploration will have a conservative debt to equity relationship and a strong balance sheet.

LAND

Petro-Canada has preferential rights to select lands from among the Crown reserve lands. As at September 10, 1979, Petro-Canada has applied for approximately 68 million acres, but the exploration

contracts have not yet received Ministerial approval.

Recognizing that the future of a petroleum company is a function of the amalgam of its human resources, its prospective net cash flow and its land holdings, the Task Force is of the opinion that Ministerial approval of the applications currently pending would be of major benefit to the privatization process and would contribute significantly to the capacity of the company to play a leading role in the Canadian petroleum industry in the future.

ORGANIZATION

It will be necessary to restructure the Board of Directors and senior management notwithstanding the evident commitment and accomplishments of the Directors and management of Petro-Canada. Specifically:

- It will not be appropriate for Petro-Canada Exploration to have public servants on its Board of Directors.

- The Chairman of the Board of Directors should not be Chief Executive Officer; this position should be held by the

President.

-- The Chairman of the Board should be elected by the new Board from their membership.

-- The Board of Directors of Petro-Canada Exploration should be relatively small -- 12 to 14 persons -- and each potential director should be pre-eminent in terms of qualifications related to the direction or management of large business entities.

-- All potential Directors, prior to being appointed, should be prepared to make a serious commitment to the success of Petro-Canada Exploration and should agree, if re-elected by shareholders at annual meetings, to serve for several years.

CRITERIA

Early in its work the Task Force recognized that there were a number of alternative procedures for privatizing Petro-Canada Exploration. In order to evaluate these various procedures, the Task Force established five criteria against which various alternative procedures were measured. These criteria, which emerge from the terms of reference and the collective convictions of the Task Force members, may be summarized as follows:

(1) Petro-Canada Exploration now belongs indirectly to all Canadians and the privatization procedure must be one that minimizes any shrinkage of this broad ownership.

(2) The cost of transfer of ownership from the Government to individual Canadians must be kept to a minimum level and the method of distribution must not be unduly complex.

(3) The privatization procedure must not adversely affect sources of capital available to other enterprises.

(4) The privatized company - Petro-Canada Exploration - must have the prospect, without further special privileges from government, of becoming a major Canadian entity within the community of domestic and international petroleum enterprises.

This has been accomplished by the financial restructuring recommended.

(5) While the objective of privatization is a total divestiture by the Government of its interest in Petro-Canada Exploration, an interim stage wherein the Government retains an interest not in excess of 25% would be acceptable.

PROCEDURES

The Task Force considered several procedures for accomplishing the privatization and tested them against the above criteria.

. The first procedure considered was the sale of the assets of Petro-Canada to Canadian-owned and controlled companies to recover the $1.0 billion investment of Canadian taxpayers and eliminate the $1.5 billion debt guarantee.

While this procedure would be the one most likely to quickly and completely disengage the Government from its ownership position, it was rejected because it would not achieve broad ownership and it would not establish a major, Canadian-owned, private sector petroleum company.

- The second procedure considered was a conventional, underwritten distribution in which shares would be sold through the securities markets with only eligible Canadians permitted to make purchases.

This procedure was rejected because it would not achieve broad ownership. Also, in view of the fact that this procedure would require a series of underwritten distributions over a considerable period of time, it would be costly, it could adversely affect sources of capital available to other enterprises, and the Government would be compelled to retain a relatively large interest in Petro-Canada Exploration for a number of years.

- A third procedure considered was a distribution to a wider group of

prospective investors, giving all Canadians a right to purchase shares of Petro-Canada Exploration at a discount. Under this procedure, Canadians who chose not to exercise their rights would be able to sell them to others who wished to acquire more shares.

An advantage of this procedure is that those Canadians who chose not to acquire shares through the exercise of rights, or who were unable to do so, would still benefit from the privatization by the sale of their rights. However, the Task Force members decided against recommending this alternative because there are procedures for achieving wider distribution. This procedure would be costly and complex, and to the extent that rights went unexercised, funds would not be raised to reduce the Government's total investment in the financially restructured Petro-Canada Exploration.

. A fourth procedure considered was a combination of gifting and selling shares of Petro-Canada Exploration.

While this procedure would achieve broad ownership, the Task Force decided against recommending it because it would be relatively costly, it could adversely affect sources of capital available to other enterprises; and to the extent that it was undersubscribed, funds would not be raised to reduce the Government's total investment in the financially restructured Petro-Canada Exploration.

- A fifth procedure considered - the one recommended by the Task Force - is that the Government give shares of the fully restructured Petro-Canada Exploration, pro-rata, to each eligible Canadian individual. Shares not claimed by individual Canadians would remain with the Government for disposition at an appropriate time.

This procedure meets all of the criteria developed by the Task Force. Because it does not require individual Canadians to make a direct cash investment, it will achieve the widest possible

distribution of ownership, will have no adverse impact on sources of entrepreneurial capital, and will minimize the residue of shares temporarily remaining with the Government. It is clearly the least complex method of distributing ownership and because selling commissions are eliminated and expenses are only those associated with attracting and processing applications for shares, the cost can be kept to a minimum.

In view of the fact that only eligible Canadian individuals will be entitled to receive transferred shares at the time of the privatization and only eligible Canadians will be permitted to acquire shares in the aftermarket Petro-Canada Exploration is assured of being a wholly Canadian-owned company. The recommended procedure will also avoid inequity because all Canadians will be able to participate and all will have the opportunity to share equally in the benefits of ownership.

An aspect of the recommended procedure that concerned the Task Force is its fiscal implications for the Government of Canada. The direct transfer to Canadians of ownership of shares of Petro-Canada Exploration will result in the Government's total

invested capital of $2.5 billion becoming a charge against the Consolidated Revenue Fund in proportion to the per cent of Petro-Canada Exploration shares accepted by Canadians. Nevertheless, in view of the Government's energy objectives, the opportunity to establish a major, Canadian, private sector, profitable, broadly owned and self-supporting petroleum company, should be pursued.

Distribution and Share Features

Before distribution, a detailed review and analysis of legal, financial, tax and security regulation aspects of privatization will have to be completed, enabling legislation will have to be passed, a plan of distribution established and share features determined. Regarding the share features the Task Force concluded that the following are desirable:

-- The common shares would not be guaranteed in any manner by the Government of Canada nor would the Government have any direct or indirect obligation with respect to the shares.

-- Bearer certificates would be used for the initial distribution.

-- Holders of bearer certificates aggregating one hundred or more common shares should be able to become fully registered shareholders.

-- Once trading in the marketplace commences, individual and eligible institutional investors should be able to accumulate share positions which, in the case of individual investors, should be limited to 1% of common shares outstanding and in the case of eligible institutional investors, should be limited to not more than 3% of common shares outstanding.

-- The Government of Canada should amend federal legislation and undertake to obtain amendments to provincial legislation so that Petro-Canada Exploration shares are defined as investments in which financial institutions may legally invest.

-- Petro-Canada Exploration should make application for listing its common shares on all Canadian stock exchanges as soon as practicable.

## SECTION V THE GOVERNMENT AGENCY

The public interest activities and assets of Petro-Canada will become resident in the Government Agency which, in the view of the Task Force, should have the following characteristics and responsibilities:

. Characteristics

. Board of Commissioners. It is proposed that the Board should consist of a Chairman, two Vice-Chairmen responsible respectively for Exploration and for Research, plus two to five other members.

. Secretariat: The Government Agency should have a secretariat, the members of which will be recruited from existing government departments and/or the private sector. The secretariat will carry out the administrative functions. There will be a requirement for technical staff.

. the Government Agency should be located away from the national capital: a logical location is Calgary.

. members of the Board shouldbe eminently qualified persons but preferably no longer

actively involved in the direct operation of petroleum-related corporations. If an atmosphere could be created where such an appointment was considered an honour and a recognition of earned distinction, the Agency could acquire the services of some of the best qualified people in Canada.

. The Government Agency would report to the Minister of Energy, Mines and Resources.

RESPONSIBILITIES

In broad terms, the Government Agency, to be established by special Act of Parliament, would be charged with the following functions:

(1) To act as an advisory board on petroleum matters to the Minister of Energy, Mines and Resources.

(2) To assist in the negotiation of state-to-state contracts for the

importation of crude oil, as necessary.

(3) To promote accelerated exploration and increased Canadian participation in offshore and frontier areas.

(4) Promoting research and development in:

(a) oil (tar) sands recovery (thermal - in situ, mining and bitumen separation);

(b) heavy oil recovery;

(c) bitumen and heavy oil upgrading;

(d) enhanced recovery of light and medium oil;

(e) exploration, production and transportation related to frontier and offshore petroleum resources and developments.

(5) Monitoring technology and research and development undertaken by other

countries in areas listed in item (4) above.

(6) In cooperation with other relevant Government departments and agencies, negotiating state-to-state agreements on the sale, purchase or exchange of research and technology and assuring Canada's involvement in and knowledge of international research and developments relating to petroleum.

In terms of the activities currently administered by Petro-Canada, the following specific arrangements should be made:

. The Government Agency should leave with the new Petro-Canada Exploration 15 per cent of the total equity of Panarctic Oils Limited. The remainder should reside with the Government Agency.

The rationale for ths recommendation is that the development of hydrocarbons in the Arctic Islands is relevant to long-term domestic energy supplies and

has Canadian sovereignty implications. Through the Government Agency's participation, the Government of Canada will retain a means of influencing activity. Further, in commercial terms, with a 15 per cent equity in Panarctic Petro-Canada Exploration will have a reduced exposure to the risks as well as the rewards from Arctic activities.

- Of the 25 per cent ownership of Polar Gas now vested in Petro-Canada, the Government Agency should retain responsibility for 15 per cent and Petro-Canada Exploration should retain responsibility for 10 per cent.

- The operation and management of the Arctic Pilot Project should remain with Petro-Canada Exploration. However, the equity held by Petro-Canada today should, in substantial part, be lodged with the Government Agency. The 55 per cent equity now held by present Petro-Canada should be divided with 45 per cent lodged with the Government Agency and the remainder with Petro-Canada Exploration.

The rationale for these two recommendations is essentially similar to the rationale for the involvement of the Government Agency in the activities of Panarctic Oils Limited; an expanded program of exploration and development in the Arctic Islands implies the development of the means of moving any resulting product to market. It is important that Canada should (a) define and quantify the resources and reserves of crude oil and natural gas in the Arctic Islands, and (b) should undertake on an urgent basis research essential to the development of the infrastructure for moving these resources to market if, as, and when required.

- It is recommended that the Lancaster-Bylot Basin Project should revert 100% to the Government Agency.

- Although it is assumed that Petro-Canada Exploration will continue much of the research and development in which it is now engaged, the Government Agency should support petroleum-related research and development activities, including any on-going work referred or transferred from Petro-Canada Exploration.

The Task Force recommends that the Government Agency should be directly charged with the responsibility of ensuring that the pace of exploration, development and transportation projects designed to expand frontier and offshore discovery, development and delivery of fossil fuels is increased: this will be accomplished through the advocacy of fiscal regimes, appropriate regulations and incentives, as well as financial support.

## SECTION VI PETRO-CANADA PRIVATIZED

### Characteristics

Petro-Canada Exploration will be a private sector company in all respects; it will have private sector objectives, a reorganized financial structure, a revamped Board of Directors, restructured management, as necessary, and the broadest practicable distribution of shares to all Canadians.

### Responsibilities

All assets and activities now vested in the government-owned Petro-Canada that are not specifically defined as the responsibility of the Government Agency shall be vested in the new, privately-owned Petro-Canada Exploration.

It is recommended that neither the Task Force nor the Government of Canada should form judgments as to the further divestment of assets; sales of other assets should be a matter for consideration by the Board of Directors and the management of Petro-Canada Exploration.

In more specific terms, Petro-Canada Exploration would retain 100 per cent of the assets gained in the takeover of Atlantic Richfield Canada Limited and Pacific Petroleums Limited, (which included the involvement in the proposed Alsands Project), the Syncrude investment, and, as noted, any activity or investment not specifically reserved for the Government Agency.

Petro-Canada Exploration should retain 10 per cent of the interest in the Arctic Pilot Project. The rationale for this retention by Petro-Canada Exploration is the fact that, because of the lead role played by Petro-Canada personnel in the Arctic Pilot Project, the Task Force is concerned that if shifted away from Petro-Canada this project might falter.

The Task Force recommends that Petro-Canada Exploration retain 15 per cent of Panarctic Oils Limited. The rationale for reducing the holding is that returns are uncertain and long term. The rationale for retaining some equity is that, if and when returns eventuate, they may be large.

The division of assets and debt restructuring

recommended by the Task Force will alter the balance sheet of Petro-Canada Exploration. The effects of the changes are detailed in the notes and condensed statements that follow:

Petro-Canada Exploration Inc.

Condensed Balance Sheet

(Unaudited)

June 30, 1979

(Millions of Dollars)

BEFORE GIVING EFFECT TO THE PROPOSED TRANSACTIONS OUTLINED

| Assets | |
|---|---|
| Working capital | $ 177.4 |
| Investments | 274.2 |
| Property, plant and equipment | 2,490.7 |
| | $2,942.3 |

| Liabilities | |
|---|---|
| Deferred income taxes | $ 348.5 |
| Long-term debt | |
| Mortgages and unsecured notes | 152.8 |
| Payable to Petro-Canada | 803.3 |
| Term preferred shares | 1,464.4 |
| | $2,769.0 |

| Shareholders' Equity | |
|---|---|
| Common shares | 23.5 |
| Retained earnings and contributed surplus | 149.8 |
| | 173.3 |
| | $2,942.3 |

Petro-Canada Exploration

Proposed Transactions

June 30, 1979

1. The recording of the September 1979 sale of a 3% interest in Syncrude to Alberta Energy Company for $83.0 million which results in a capital gain net of taxes of $9.0 million.

2. The transfer to the Government Agency of all but a 15% interest in Panarctic Oils Limited, at a fair proportion of invested cost.

3. The transfer from Petro-Canada of a 10% interest in the Polar Gas Project, at a fair proportion of invested cost.

4. The transfer to the Government Agency of a 45% interest out of the present 55% interest in the Arctic Pilot Project, at a fair proportion of invested cost.

5. The transfer to the Government Agency of all interest in the Lancaster Sound-Bylot Basin project, at invested cost.

6. The purchase of the outstanding term preferred shares of Petro-Canada Exploration Inc. by the Government of Canada and their conversion to fully paid common shares of Petro-Canada Exploration.

7. The transfer of cash from Petro-Canada Exploration to Petro-Canada, from existing resources and appropriate financing, to facilitate the repayment of Petro-Canada's $210 million income debenture.

8. After the transfers in 2, 3, 4, 5 and 7 above, the issue of treasury common shares in full settlement of the net balance of advances payable to Petro-Canada by Petro-Canada Exploration.

9. The broad distribution of the common shares of Petro-Canada Exploration, held by the Government and Petro-Canada, to eligible Canadian individuals in accordance with the guidelines recommended by the Task Force.

Petro-Canada Exploration

Pro-Forma Condensed Balance Sheet

(Unaudited)

June 30, 1979

(Millions of Dollars)

AFTER GIVING EFFECT TO THE PROPOSED TRANSACTIONS OUTLINED

| Assets | |
|---|---|
| Working capital | $ 50.2 |
| Investments | 201.8 |
| Property, plant and equipment | 2,402.4 |
| | $2,654.4 |

| Liabilities | |
|---|---|
| Deferred income taxes | $ 351.5 |
| Long-term debt | |
| Mortgages and unsecured notes | 150.0 |
| | 501.5 |

| Shareholders' Equity | |
|---|---|
| Common shares | $1,994.1 |
| Retained earnings and contributed surplus | 158.8 |
| | $2,152.9 |
| | $2,654.4 |

## SECTION VII THE TRANSITION PROCESS

The Task Force believes that it is important in the interest of the morale of the persons employed by Petro-Canada and of the maintenance of the momentum of the company that the Government's decisions regarding this report be made known at the earliest possible date.

In the event that the Government of Canada endorses the general conclusions of the Task Force, we recommend that the Minister of Energy, Mines and Resources exercise his authority under Section 7(2) of the Petro-Canada Act to effect the following:

1. Issue a policy directive stating that henceforth the affairs of Petro-Canada Exploration Inc. be conducted on a commercial basis.

2. Replace the present Board of Directors of Petro-Canada Exploration Inc., comprising senior officers of the company, with a new Board comprised of the two senior officers of the corporation, the existing Petro-Canada

private sector Board members, and at least six new private sector Board members.

3. Direct the newly constituted Board of Petro-Canada Exploration Inc. to develop, in cooperation with the relevant government departments and agencies, a detailed plan for the earliest possible completion of the prerequisites to privatization along the guidelines recommended by the Task Force.

4. Indicate that the Board and management will be expected to cooperate fully in implementation of the privatization as approved by the Governor-in-Council and following enabling legislation.

# REPORT OF THE TASK FORCE ON PETRO-CANADA

# REPORT OF THE TASK FORCE ON PETRO-CANADA

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